



Digitized by the Internet Archive
in 2017 with funding from
American Printing House for the Blind, Inc.

<https://archive.org/details/financinghousing00unse>

HV17 93
F 491
N 213

FINANCING HOUSING FOR PEOPLE WITH DISABILITIES

THE FINANCING MECHANISMS

May 1989

This report was produced by the National Association of Home Builders National Research Center for the United States Department of Housing and Urban Development (Contract No. HC-5810). The views and conclusions contained herein are those of the authors and should not be interpreted as necessarily representing the official view or policies of the United States Government.

AMERICAN FOUNDATION FOR THE BLIND
15 WEST 16th STREET
NEW YORK, NY 10011

FINANCING HOUSING DEVELOPMENT

The development of affordable housing for persons with disabilities can be financed through various federal, state, and local sources. In most instances, it will be necessary for project sponsors to combine funding from several sources to produce a viable financing package.

Sections One through Three provides detailed summaries of major financing mechanisms used in developing affordable housing for persons with disabilities. Brief summaries are also provided on financing mechanisms with potential for expanded use. References to sources of additional information on each mechanism are included.

TABLE OF CONTENTS

	<u>Page</u>
SECTION ONE: MAJOR FINANCING MECHANISMS	1
<u>PART ONE: FEDERAL INITIATIVES</u>	1
Section 202 Direct Loan Program for Rental Housing for Persons with Disabilities	2
Rental Rehabilitation Program	3
Permanent Housing for the Handicapped Homeless	4
Community Development Block Grants	6
Rental Assistance - Housing Vouchers and Section 8 Certificates	7
Low-Income Housing Tax Credit	8
<u>PART TWO: STATE AND LOCAL INITIATIVES</u>	10
Tax-Exempt Bonds for Multifamily Housing	11
Tax-Exempt Bonds for Single-Family Mortgages	13
Housing Trust Funds	15
SECTION TWO: ADDITIONAL FINANCING MECHANISMS	17
<u>PART ONE: FEDERAL PROGRAMS</u>	17
Federal Housing Administration Mortgage Insurance	18
Nehemiah Housing Opportunity Grants	19
Farmers Home Administration Section 504	20
Department of Veteran Affairs	21
<u>PART TWO: STATE AND LOCAL PROGRAMS</u>	22
Low-Interest Loans and/or Grants for Accessibility Improvements	23
Innovative Housing Demonstrations/Special Needs Housing Funds	24
Rehabilitation/Mental Health Services Contracts	25
Low-Interest Home Improvement Loans	26
Down Payment Grants or Loans for Moderate-Income Home Buyers	27
SECTION THREE: MISCELLANEOUS FINANCING MECHANISMS	28
Tax Credits for Medically Related Home Improvements	29
Third-Party Reimbursements by Medical Insurers	30
Information Resources	33

SECTION FOUR: COMMUNITY OPTIONS	34
Community Options in the Development of Housing	35
The Reservoir Cooperative	37
Corporation for Independent Living	39
Specialized Housing, Inc.	41
Association for Retarded Citizens Housing Development Services, Inc.	42
Association for Retarded Citizens of Albuquerque	44
 SECTION FIVE: DEVELOPMENT MODELS	 45
Introduction	46
Housing Cooperatives	47
Small Scale Apartment Building	52
Medium Scale Apartment Building	56
Supportive Living Environment	61
Single-Room Occupancy Building	64
 SECTION FIVE: SAMPLE WORK SHEETS	 68
Introduction	69
Project Development Budget	70
Sources and Uses of Funds	71
Operating Revenues and Expenses	72
 CONCLUSIONS	 73

SECTION ONE:
MAJOR FINANCING MECHANISMS

Part One:
FEDERAL INITIATIVES

SECTION 202 DIRECT LOAN PROGRAM FOR RENTAL HOUSING FOR PERSONS WITH DISABILITIES

The Section 202 Direct Loan Program is the standard financing mechanism provided by the Federal Government for subsidized housing for persons with disabilities. Section 202 provides 100 percent direct mortgage loans and rent subsidy for residents.

Applicability - Section 202 provides funding for the development of group homes and for apartment complexes referred to as independent living complexes (ILCs). Group homes funded with Section 202 funds may accommodate up to 15 persons with disabilities. Independent living complexes may be designed to serve persons with physical or developmental disabilities and their families in projects of not more than 24 units on one site. ILCs developed to serve persons with chronic mental illness may serve up to 20 persons on one site.

Eligible Sponsors/Developers - Sponsorship of Section 202 housing is limited to non-profit organizations. A separate ownership entity known as "a borrower corporation" must be formed to develop and operate each project. Non-profit organizations may form a joint venture with builders/developers to develop, construct, and manage Section 202 projects.

Eligible Residents - Section 202 targets very low-income households and individuals whose incomes do not exceed 50 percent of area median income, although a limited number of units may be made available to households or individuals with incomes between 50 and 80 percent of area median.

Program Description - Section 202 can be used to finance multifamily rental and limited equity cooperative housing and group homes. The program may be used for new construction of ILCs, acquisition with or without substantial rehabilitation of existing properties for group homes and new construction of group homes. Prospective sponsors apply directly to U.S. Department of Housing and Urban Development and the process of application review and approval through occupancy generally takes between one and two years. Approved projects receive direct mortgage loans and operating subsidies.

Complexity - Section 202 has a clearly defined although time-consuming application process. In instances where project development costs are eligible for 100 percent financing, the program is fairly straightforward. In some cases, not all project costs are mortgageable and supplemental funding sources must be sought.

Other Issues - The Section 202 program has been recently revised to allow more flexibility to reduce the time required for project development.

Information Sources - The U.S. Department of Housing and Urban Development provides application packages to prospective sponsors.

RENTAL REHABILITATION PROGRAM

The Rental Rehabilitation Program (RRP) administered by the U.S. Department of Housing and Urban Development (HUD) provides grants to rehabilitate existing rental units and provides rental assistance to low-income households. State and local governments design and operate programs tailored to their needs.

Applicability - RRP assistance is limited to low-income neighborhoods in which rents can be expected to remain affordable to low-income households over time.

Eligible Sponsors/Developers - Private owners of primarily residential rental properties may use RRP funds.

Eligible Residents - Eligible low-income tenants must have incomes that are at or below 80 percent of area median income.

Program Description - RRP provides a formula allocation of grant funds to state and local government to make the rehabilitation of rental properties financially feasible. Direct allocations go to states, to cities with population over 50,000, and to urban counties that receive at least a minimum allocation established by HUD. State programs cover areas under 50,000 population and cities over 50,000 population that do not receive the minimum allocation. Current program participants include 438 direct grantees, 39 states plus Puerto Rico, and over 30 small city recipients. HUD administers the program for small cities in the remaining 11 states.

Grant funds may be used only to correct substandard conditions, make essential improvements, and repair major systems in danger of failure. In addition, 70 to 100 percent of each grantee's funds must be spent on rehabilitation of properties occupied by lower-income families over time. Preference is given to applications for projects that include a substantial proportion of units with two or more bedrooms. Rehabilitation subsidies are generally limited to 50 percent of rehabilitation costs.

Other Issues - Units are rented at market rents and no special project rent controls or restrictions are allowed. Section 8 certificates and vouchers may assist eligible tenants in remaining in rehabilitated units or securing other rental units. Eligible tenants may also move into vacant rehabilitated units.

Complexity - RRP is administered through local housing authorities which are responsible for defining the application process. The degree of complexity may vary from one jurisdiction to another.

Information Sources - Local housing and community development agencies can provide project sponsors with application guidelines and information on funding cycles.

PERMANENT HOUSING FOR HANDICAPPED HOMELESS PERSONS

The Permanent Housing Program is part of the Supportive Housing Program, authorized by the Stewart B. McKinney Act. It provides federal matching funds for the acquisition and rehabilitation of a supportive living home for up to eight individuals with disabilities or a building with up to eight housing units for persons with disabilities and their families who are either homeless or at risk of becoming homeless. The Supportive Housing Program also includes a program to finance transitional housing for homeless persons.

Applicability - The Permanent Housing Program targets people with disabilities with priority given to persons with mental illness. Loan funds are available for acquisition and rehabilitation of housing, and grants are available for moderate rehabilitation and operating costs.

Eligible Sponsors/Developers - Public housing authorities and non-profit sponsors designated by the state are eligible to apply for funds. They must operate the home and provide or coordinate support services for the residents of the housing.

Eligible Residents - Persons with disabilities and their families who are either homeless, at risk of becoming homeless, or who have been residents of transitional housing under the Transitional Housing Program are eligible to be served under the program.

Program Description - The Permanent Housing Program provides four types of assistance:

1. Interest free advances up to the lesser of \$200,000 or 50 percent of the cost of acquisition and/or rehabilitation of an existing property. Applications for advances of up to \$400,000 will be considered in geographic areas with high costs. Applicants may obtain the list from the U.S. Department of Housing and Urban Development (HUD) field offices and it is included in the application package.
2. Grants for the lesser of \$200,000 (or up to \$400,000 in areas with high costs) or 50 percent of the cost of moderate rehabilitation of an existing structure, not to exceed: a) \$5,000 per bedroom unit in single-room occupancy housing, in a group home, or per unit without a bedroom in other types of projects; or b) \$7,000 per unit with one or more bedrooms in other types of projects.
3. Technical assistance in connection with either of the two types of awards above.
4. Grants for operating costs, not to exceed 50 percent of costs in the first year, and 25 percent in the second year, including costs of support services.

States must apply for funds from HUD to pay for 50 percent of the cost of projects. The other 50 percent must be non-federal funds; these could include state agency funds, for example, from a human services agency, a direct appropriation through the state legislature, the value of a building or other materials to be used, or the non-federal portion of funds from other federal programs.

Only supportive living environments that provide housing for up to eight individuals with disabilities or other types of housing that provide units for up to eight individuals with disabilities and their families can be funded under the Permanent Housing Program.

However, the Secretary of HUD can waive the eight unit limitation in cases where the applicant demonstrates that market conditions and economies of scale dictate the development of a larger-scale project and that the development will still achieve the goal of community integration.

Other Issues - None

Complexity - The major disincentive for applying for funding under this program is its complexity. To receive the federal funds, states must not only provide matching funds but must certify the project and demonstrate the ability to provide support services through the life of the loan.

Information Sources - Contact the local HUD field office for program application guidelines. Prospective project sponsors submit applications to a designated state housing finance agency.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Community Development Block Grants (CDBG) are made by U.S. Department of Housing and Urban Development (HUD) to local communities for use in financing projects that foster development of viable urban communities. Local community development departments generally administer CDBG funds and make awards at their own discretion. While CDBG funds can be used to make outright grants, they are frequently awarded as below-market interest rate loans.

Applicability - At least 51 percent of CDBG funds are to be targeted to projects benefiting low- and moderate-income persons. Calculation of the benefit can include job creation for low- and moderate-income individuals as well as housing units affordable to households in this category. Funds are generally targeted toward declining neighborhoods or areas where immediate investment can prevent future decline.

Eligible Sponsors/Developers - Local community development agencies award CDBG funds to non-profit organizations. Private sector builders/developers involved in the development of affordable housing may receive CDBG funds if channeled through a non-profit organization.

Eligible Residents - CDBG funds are intended to provide a flexible source of financing to support housing and community development activities. As long as a project provides documented benefits to low- and moderate-income households, there are no formal requirements limiting eligible residents of projects funded by CDBG loans.

Program Description - Within broad parameters established by HUD, local jurisdictions develop their own guidelines for projects eligible for CDBG funding. Most communities attempt to leverage CDBG benefits by using them to provide a portion rather than all the financing needed for a project. Typical uses of funds include low-interest second mortgages and low-interest construction financing. Funds can be used for building acquisition, relocation, demolition, rehabilitation, and in some cases, new construction. CDBG funds have also been used for planning, design, construction, and removal of architectural barriers for sheltered workshops, and non-profit centers for persons with disabilities.

Complexity - Most communities have a relatively straightforward process for CDBG fund applications. Because of the intent to provide flexible use funds, regulations tend to be less restrictive than for other subsidy programs. CDBG funding is frequently used by project sponsors as "gap financing" that provides the final increment needed to complete a financing package.

Information Sources - Local housing and community development agencies can provide project sponsors with application guidelines and funding cycle information.

RENTAL ASSISTANCE - HOUSING VOUCHERS AND SECTION 8 CERTIFICATES

Housing vouchers and Section 8 certificates provide assistance to low- and moderate-income tenants to reduce their rental payments.

Applicability - Rental assistance is targeted to individuals with less than 80 percent of the area median income adjusted for family size. Tenants apply directly for vouchers and existing Section 8 certificates.

Eligible Sponsors/Developers - Vouchers and Section 8 certificates are administered by local housing agencies. Non-profit groups may enter into arrangements with their local housing agencies to obtain vouchers or Section 8 certificates on behalf of eligible individuals or families with disabilities whom they serve.

Eligible Residents - Individuals and households with income below 80 percent of the area median income adjusted for family size are eligible.

Program Description - Vouchers and Section 8 certificates provide rental assistance to low-income tenants in much the same way. The primary difference lies in how the amount of assistance is computed and the options available to the tenants in obtaining housing.

Section 8 certificates provide assistance to cover the difference between 30 percent of a tenant's adjusted income and the fair market rate rent (adjusted with a utility allowance) for a unit. The owner of the residence agrees to accept the U.S. Housing and Urban Development's (HUD) determined fair market rate rent.

Housing vouchers, on the other hand, provide a predetermined subsidy based on prevailing local rental rates. Tenants can then shop for housing at whatever rent they are willing to pay. Tenants may pay more or less than 30 percent of their income, depending on the rent they are able to negotiate with the landlord.

Vouchers or certificates may be used as subsidies for residency in a supportive living environment.

Complexity - There are numerous administrative requirements involved in applying for vouchers or Section 8 certificates, including documentation of applicant income. Further, tenant eligibility must be verified on an annual basis.

Other Issues - Several programs around the country have used vouchers and Section 8 certificates as an alternative to housing development, choosing instead to assist individuals with disabilities in obtaining rental assistance and providing whatever supports are needed in the home chosen by the individual. Sometimes, more than one person holding a certificate or voucher may share a home and services. In at least one instance, the state human services agency has been designated a housing finance agency and disburses vouchers and Section 8 certificates on behalf of local agencies to assist individuals with disabilities.

Information Sources - Local public housing authorities state housing finance agencies, or the HUD regional office can provide application information.

LOW-INCOME HOUSING TAX CREDIT

The low-income housing tax credit is a mechanism for raising private equity through limited partnerships. The low-income housing tax credit provides a reduction in tax liability for 10 years to owners/investors in low-income rental housing. The property must be held as low-income housing for at least 15 years. The amount of the tax credit is calculated on the basis of acquisition and/or development costs and on the number of qualified low rent units. Generally, the tax credit must be combined with other subsidies to achieve a financially feasible development.

Applicability - Use of the tax credit is limited to rental housing. Projects may include single-family units, small and large apartment buildings, and limited equity housing cooperatives. The tax credit has been used by non-profit residential service-providers to finance shared living environments for lower income persons with disabilities. (See Association for Retarded Citizens of Albuquerque, p. 44).

Eligible Sponsors/Developers - Projects sponsored by either builders, developers, or non-profit developers are eligible to apply for tax credit allocations. Ten percent of each state's allocation must be allotted to non-profit developers. Potential investors should be identified before structuring a project where use of the credit is contemplated due to restrictions on investor income levels. Tax credit benefits as presently structured offer the greatest potential for private for-profit corporations.

Eligible Residents - Low-income occupancy restrictions require projects to include either 1) 20 percent of units for persons or households with incomes at 50 percent or less of area median; or 2) 40 percent of units for persons or households with incomes at 60 percent or less of area median. Income limits are adjusted for qualifying income basis for the size of the household.

Program Description - Each state has a cap or limit on total tax credit allocations calculated on a per capita formula basis. Tax credits are allocated by the state housing credit agency (usually the state housing finance agency) to specific rental projects based on applications made by the project sponsors.

The amount of the tax credit is calculated at approximately 9 percent of eligible project costs annually for 10 years for new construction and substantial rehabilitation. The tax credit is reduced to approximately 4 percent annually for costs of property acquisition, moderate rehabilitation, projects financed with federal funds, and projects financed with tax-exempt bonds.

Complexity - In most cases, the tax credit alone does not provide an adequate method of subsidizing low-income rental housing. Therefore, its use is complicated by the need to layer it with other financing sources. Complex compliance and reporting requirements dictate that project sponsors secure sophisticated legal and accounting services in structuring tax credit projects to avoid possible disallowance by the Internal Revenue Service.

Other Issues - The current tax credit program expires at the end of 1989. Legislation to extend the credit is currently pending.

Information Sources - State and local housing finance agencies can provide project sponsors with tax credit application procedures.

Joseph Guggenheim, *Tax-Credits for Low-Income Housing: New Opportunities for Developers, Non-Profits, and Communities Under the 1986 Tax Reform Act*, Simon Publications, Washington, D.C.

SECTION ONE:
MAJOR FINANCING MECHANISMS

Part Two:
STATE AND LOCAL INITIATIVES

TAX-EXEMPT BONDS FOR MULTIFAMILY HOUSING

Tax-exempt bonds are issued by local or state housing finance and economic development agencies to provide below-market rate financing to build or acquire and substantially renovate multifamily housing. Because the interest paid to bond-holders is not taxable, issuing jurisdictions pay a lower rate of interest. The savings from the reduced interest payments are passed on to the developer, ultimately resulting in lower rent payments.

Applicability - Though tax-exempt bonds are intended to provide affordable housing for the general market, several projects to develop housing for people with disabilities have been funded using bonds. Some states such as Connecticut and Oregon have set aside a portion of their bond issuing authority to provide housing for people with disabilities. Bond-financed projects tend to be large-scale due to the costs and complexity of the process. However, the flexibility of the mechanism allows the development of "scattered-site" as well as "single-site" multifamily housing. In the former case, smaller projects are pooled into bond issues to spread the costs of bond issuance.

Eligible Sponsors/Developers - There are two types of tax-exempt bonds for multifamily housing: governmental bonds and private activity bonds. Governmental, or public-purpose, bonds have no volume ceiling, but these securities can only be used for projects under government ownership. Bonds issued to finance rental housing projects undertaken by private developers, called multifamily industrial development bonds or IDBS, are classified as private activity bonds. Private activity bonds are subject to a state-by-state annual per capita limit, except for bonds used to finance projects sponsored by non-profit 501(c)(3) organizations. (See the Corporation for Independent Living, p. 39).

Eligible Residents - Multifamily housing financed through tax-exempt bonds targets low-income tenants without regard to other characteristics. Projects must have either: 1) 20 percent of units reserved for persons or households with income at or below 50 percent of area median adjusted for family size; or 2) 40 percent of units reserved for households with incomes at or below 60 percent of area median adjusted for family size. In some instances, a portion of a jurisdiction's bond authority has been reserved for projects to house people with disabilities. With public purpose bonds, and 501(c)(3) private activity bonds, the bond issuer determines the rent levels, unit mix and project locations, but the 20/50 and 40/60 income restrictions do not apply.

Program Description - The Federal Government tax code allows local and state housing finance agencies to issue tax-exempt bonds to develop affordable housing. Tax-exempt bonds provide financing at an interest rate typically 1.5 to 2 percent below the market rate.

Tax-exempt financing can be used to fund new construction, substantial and moderate rehabilitation for five or more units in multifamily buildings, and supportive living environments.

Each housing finance agency develops application procedures for project financing. Most receive proposals on an ongoing basis.

Complexity - Administratively, the application process involves several stages and entails a substantial amount of paperwork and documentation as well as a series of issuing agency reviews and approvals.

Because of the need to obtain a favorable bond rating and therefore a lower interest rate, tax-exempt bonds are frequently combined with credit enhancements, such as Federal Housing Administration mortgage insurance through the GNMA bond guarantee program. Other forms of credit enhancement include letters of credit from banks or bond insurance.

To achieve affordability, bond financing is frequently combined with other subsidies. Project sponsors may have to request waivers of conflicting regulations governing the use of other subsidy funds combined with bonds to maintain the tax-exempt status of the bonds. This process adds to the time and complexity of the development process.

Other Issues - Congress extended authorization for tax-exempt bond financing through 1989.

Information Sources - Local or state housing finance agencies can provide sponsors with application information.

TAX-EXEMPT BONDS FOR SINGLE-FAMILY MORTGAGES

State and local housing finance agencies are authorized by the Federal Government to issue tax-exempt bonds to provide below-market interest rates on single-family home mortgages.

Applicability - Typically, only first-time home buyers of single-family, owner-occupied homes are eligible. Federal law sets limits for family income and for home purchase prices. A borrower's income can not exceed 115 percent of the higher of state or area median income. The home price must not exceed 90 percent of the average area purchase price. Additional latitude on income and purchase price limits is permitted in targeted areas. Mortgage Revenue Bonds (MRBs) are classified as private activity bonds and are subject to a state-by-state annual per capita ceiling. Authority for these bonds is scheduled to expire December 31, 1989. Although demand far outstrips supply for these mortgages, they are available through state and local housing finance agencies.

Eligible Sponsors/Developers - MRBs provide purchase financing for homes built by private non-profit and profit-motivated developers. Allocation of funds varies by state, but is usually done through lenders. Some states set aside portions of MRB issues for new construction. Non-profit developers may also apply for reservations of mortgage loan funds to assist income-eligible purchasers of units developed by the non-profit.

Eligible Residents - First-time home buyers of single-family homes for owner-occupancy are eligible recipients if they meet the income criteria.

Program Description - Single-family mortgage tax-exempt bonds are issued by housing finance agencies. The proceeds are generally allocated through qualified lenders who are authorized by the issuing agency to process loan applications for mortgages at below-market interest rates. Each housing finance agency sets procedures for application.

Because of the federally imposed "cap" on the issuance of tax-exempt, single-family mortgage bonds, the number of applications for the mortgages exceeds the available resources. Lotteries are frequently used to select mortgage recipients.

Purchasers of homes using a mortgage financed by a tax-exempt bond typically pay 1.5 to 2 percent below the market rate. For example, the monthly payment on a \$75,000 mortgage calculated at 9 percent is \$603, while at 10.5 percent the payment is \$683, representing a monthly savings of \$80.

Complexity - In areas with average housing costs, financing a home through single-family tax-exempt bonds is not complex. However, in higher cost areas, affordability may require additional subsidies such as a second mortgage at an even lower rate or assistance with a down payment. A non-profit developer may be able to combine a land write-down (i.e., land acquired from a government agency at below-market cost) with a low-interest rate second mortgage from a state or local housing trust fund or local community development department.

Other Issues - Tax-exempt single-family mortgage bonds offer a way to finance affordable single-family, accessible housing, whether through a non-profit developer initiating a program targeted to persons with disabilities or through encouraging individuals with disabilities to compete for the funds along with other applicants.

Mortgage Credit Certificates (MCCs) - The MCCs program is a companion to the mortgage revenue bond program. MCCs allow qualified home buyers to reduce their federal tax liability by a percentage of their home mortgage interest payments. The certificates are issued by state and local housing finance agencies (HFAs) through mortgage lending institutions. HFAs may grant credits ranging from 10 to 50 percent of mortgage interest paid. If, however, the credit rate exceeds 20 percent, the annual credit amount is limited to \$2,000 for any taxpayer.

To obtain MCC authority, agencies must convert their MRB authority at a trade-in rate of 25 percent. MCCs may not be used with mortgages made with the proceeds of tax-exempt MRB issues.

MCCs are subject to the same income and purchase price limits as MRB mortgages and generally are limited to first-time home buyers. MCC authority expires December 31, 1989.

Information Sources - Contact local or state housing finance agency for information on application procedures and anticipated funding cycles.

HOUSING TRUST FUNDS

Housing trust funds are financed by a dedicated revenue source such as development fees or a surtax on commercial real estate transfers earmarked for affordable housing development. Trust funds are typically established and operated by state or local housing finance agencies.

Applicability - Housing trust funds primarily address housing affordability without regard to the disability of housing occupants. A few jurisdictions have designated a portion of their trust funds for housing for persons with disabilities. The housing trust fund concept could lend itself to providing low-interest rate financing for accessibility improvements to individual rental units as authorized by Fair Housing Act Amendments of 1988. Either a portion of an existing housing trust fund might be allocated for such loans, or a separate trust funds could be established for this purpose.

Eligible Sponsors/Developers - In most jurisdictions, housing trust fund loans can be applied for by profit-motivated or non-profit developers who agree to develop units meeting local affordability criteria.

Eligible Residents - Eligible occupants of units developed with housing trust fund loans are generally restricted only on the basis of income. In some areas, households must have incomes below 80 percent of the area median. Other jurisdictions have sliding scale interest rates where developers receive deeper interest subsidies for units affordable to low-income households (e.g., 3 percent loans) and slightly higher rates (e.g., 6 percent) for units affordable to moderate income households with incomes between 80 to 100 percent of area median.

Program Description - Jurisdictions structure housing trust fund subsidies in various ways. Funds may provide below-market rate construction and permanent mortgage loans or second mortgages for affordable multifamily units. Low-interest second mortgages may be used to subsidize a portion of the units in an otherwise market-rate apartment development. In the case of single-family development, housing trust funds may provide "soft" second mortgages (i.e., very low interest rates, interest-only payments, or no repayment due until the unit is sold). In some cases, resale prices of single-family units are subject to restrictions to ensure that the unit remains part of the affordable housing stock.

Housing trust funds provide developers of multifamily or single-family units with below-market interest rate loans in return for the production of units targeted to low- and moderate-income renters and home buyers. Housing trust funds may be capitalized by various sources of revenues. In addition to development fees and surtaxes noted above, sources of funding may include tax increment financing, direct allocations from state budget, interest on state real estate escrow account deposits, funds in abandoned bank accounts, and mortgage recordation fees, among others.

Information Sources - State housing finance agencies and local housing and community development agencies can provide project sponsors with information on housing trust funds that may be available in their jurisdictions.

David Rosen, *Housing Trust Funds*, American Planning Association, Chicago, 1987. (Planning Advisory Serviced Report Number 406).

News from the Housing Trust Fund Project, Quarterly newsletter, Housing Trust Fund Project, 570 Shepard Street, San Pedro, CA 90731.

SECTION TWO:
ADDITIONAL FINANCING MECHANISMS

Part One:
FEDERAL PROGRAMS

FEDERAL HOUSING ADMINISTRATION MORTGAGE INSURANCE

Mortgage insurance under the Federal Housing Administration's (FHA) 223(f) or 221(d)(3) or (d)(4) programs provides an option for guaranteeing debt for the acquisition, construction, or substantial rehabilitation of market-rate multifamily units. Mortgage insurance does not provide direct loan funds; rather, it insures loans made by financial institutions or loans made with proceeds of a bond issue. A federal guarantee of the mortgage may induce financial institutions to make mortgage loans for projects otherwise perceived as too risky. Mortgage insurance generally allows project sponsors to obtain a higher loan-to-value ratio (i.e., a larger mortgage) and lower interest rate than would be available through conventional mortgage sources.

Additional Information - U.S. Department of Housing and Urban Development area offices can provide mortgage insurance guidelines and application packages.

NEHEMIAH HOUSING OPPORTUNITY GRANTS

The Nehemiah Housing Opportunity Grants program approved by Congress in the 1987 Housing and Community Development Act authorizes low-cost second mortgages to increase the availability of affordable single-family homes. The Nehemiah program authorizes grants of up to \$15,000 per unit to non-profit sponsors to assist moderate-income home buyers with the purchase or substantial rehabilitation of one- to four-unit dwellings in targeted community areas. Nehemiah projects must be located in Census tracts or identifiable neighborhoods in which median family income does not exceed 80 percent of median income for the area. Nehemiah could conceivably be used for adaptable housing for moderate-income households.

Additional Information: U.S. Department of Housing and Urban Development area offices can provide appropriate guidelines.

FARMERS HOME ADMINISTRATION SECTION 504

The Farmers Home Administration (FmHA) Section 504 program provides low-income rural home owners with up to \$7,500 per unit in the form of grants and/or low-interest loans for general repairs. Adaptations for accessibility are specifically designated as an eligible expense.

Although FmHA does not actively promote use of the Section 504 program for accessibility improvements, the program may be the only source of funds for low-income home owners in rural areas.

Additional Information - FmHA area offices can provide information.

DEPARTMENT OF VETERAN AFFAIRS

Department of Veteran Affairs (DVA) grants of up to \$35,000 toward purchase of barrier-free homes are available to qualified veterans. DVA also provides grants to eligible veterans for accessibility improvements to either owner-occupied homes or to rental units, assuming the permission of the owner. Veterans with service-connected disabilities may receive grants of up to \$2,500. Veterans with non-service connected disabilities may apply for grants up to \$600.

Additional Information - DVA offices can provide information.

SECTION TWO:
ADDITIONAL FINANCING MECHANISMS

Part Two:
STATE AND LOCAL PROGRAMS

LOW-INTEREST LOANS AND/OR GRANTS FOR ACCESSIBILITY IMPROVEMENTS

A limited number of state and local government agencies offer funding for programs to provide low-interest loans and grants for accessibility improvements to homes occupied by low- and moderate-income persons with disabilities. Loans typically range between \$1,000 and \$6,000 and agencies administering the program often provide architectural and contracting assistance. In some cases, a government agency directly administers the loan program; in others, an independent living center or similar non-profit organization administers the program. Loan pools may be funded by an appropriation of the state legislature, housing finance agencies' funds, or from local Community Development Block Grants funds. Programs operated by the United Cerebral Palsy Association in Austin, Texas, and in New York use Community Development Block Grants funds for accessibility improvements.

Interest rates and income eligibility vary by locality. Depending on the loan amount, a second mortgage on the property may be required. Some loan funds are structured to require ongoing amortization of the loan while others do not require repayment until the house is sold.

The primary advantage of accessibility improvement loan programs is that they are cost-efficient mechanisms that allow persons with disabilities to remain in familiar surroundings rather than relocate to new housing or an institution.

Additional Information - State housing finance agencies, local housing and community development department, or local independent living centers can provide information on available programs.

INNOVATIVE HOUSING DEMONSTRATIONS/SPECIAL NEEDS HOUSING FUNDS

Some state and local jurisdictions offer financing for demonstration projects aimed at increasing affordable housing or meeting special housing needs. Typically, a state housing finance agency or a local or state department of housing and community development administers demonstration programs. Examples of such programs are in Maine, Minnesota, Colorado, and Wisconsin.

Eligible projects are typically small-scale projects with some innovative aspect that justifies support from a demonstration or special needs program. Assistance is typically in the form of below-market interest rate construction and permanent financing. Program guidelines vary by jurisdiction and are generally flexible.

Additional Information - State housing finance agencies or local housing and community development departments can provide information on available programs.

REHABILITATION/MENTAL HEALTH SERVICES CONTRACTS

State and local agencies responsible for managing deinstitutionalization programs enter into services contracts with non-profit sponsors to provide housing and services to persons with disabilities. Non-profit sponsors acquire or develop housing that meets specifications established by the governing agency. Individuals requiring housing/service packages are referred to the residence by government agencies or, in some case, by non-profits. Extensive regulations typically govern housing/service providers. Contracts can support housing provided in new or renovated facilities.

The recent trend for such contracts has been toward smaller-scale community-based supportive living environments or, in the case of individuals requiring a lower level of services, smaller shared living environments (i.e., apartments or single-family homes). In some states and counties, services contracts provide an amount sufficient to cover the entire cost of housing and services, while in other jurisdictions, funds from supplemental sources must be layered to provide other than the barest minimum quality of housing.

Services contracts typically provide for either an annual or multiyear renewable contract. When bank financing is required to acquire or renovate housing, financial institutions often balk at the uncertainty of short-term services contracts with optional renewal clauses for property designed or modified for single-purpose supportive living environments.

Additional Information - State and local departments of human services can provide additional information on housing options.

LOW-INTEREST HOME IMPROVEMENT LOANS

In areas without a targeted loan program for accessibility improvements, funds may be available through a general low-interest home improvement loan fund operated by a local department of community development. Funds are usually targeted to specific neighborhoods and require exterior improvements along with interior renovations to achieve the goal of neighborhood improvement.

Conventional home improvement loan funds should not be overlooked as a financing option simply because they do not include a special outreach effort to households that include persons with disabilities. The goal in establishing pools of low-interest housing rehabilitation funds is frequently affordability, with no conscious decision to exclude accessibility improvements as eligible costs.

In cases where accessibility improvements are not specifically delineated as an eligible expense, the designation of such costs as eligible may simply involve an administrative decision.

Loans pools both for general housing rehabilitation and accessibility improvements are typically structured as revolving loan funds where the intent is to recycle funds into new loans. The drawback of revolving funds is that slow amortization (payback) limits the availability of funds after the first round of loans is placed. A continuing infusion of new money must be appropriated to such funds with the "revolving" aspect considered a long-term rather than short-term feature of the pool.

Additional Information - Local housing and community development agencies can provide additional information.

DOWN PAYMENT GRANTS OR LOANS FOR MODERATE-INCOME HOME BUYERS

Many cities make a limited amount of funding available to low- and moderate-income home buyers in the form of down payments for the purchase of a single-family house, condominium, or cooperative. Typically, homes purchased must be located in targeted neighborhoods where the city is attempting to promote home ownership. Terms and conditions of down payment assistance program vary by jurisdiction.

Additional Information - Local housing and community development departments can provide additional information on home purchase assistance programs.

SECTION THREE:
MISCELLANEOUS FINANCING MECHANISMS

TAX CREDITS FOR MEDICALLY RELATED HOME IMPROVEMENTS

The cost of medically related home improvements may be deducted from federal taxes to the extent that costs exceed the amount by which the improvements increase a home's value. Improvements not considered value enhancers and therefore fully deductible include the following:

- Installation of entry/exit ramps
- Widening exterior doorways
- Widening hallways and interior doorways for wheelchair access
- Bathroom modifications to enhance accessibility
- Modification of kitchen cabinets and equipment to accommodate mobility impairments
- Relocating electrical outlets and fixtures

While home owners must incur sufficient tax liability to use tax credits, demonstration of the ability to repay a conventional home improvement loan for accessibility enhancements should be strengthened by the availability of tax credits. Household income that would otherwise be used to pay federal income tax could be channeled to repay the loan financing the improvements.

THIRD-PARTY REIMBURSEMENTS BY MEDICAL INSURERS

In some cases, individuals have successfully convinced medical insurers to assume the cost of retrofitting an existing home to accommodate the needs of a person with disabilities. This financing mechanism is most likely to be viable when the alternative is extended care in a medical facility, the cost of which would be assumed by the insurer. Third-party financing of improvements would require negotiations with insurers on a case-by-case basis. Insurance companies may be more amenable to assuming retrofit costs in cases where a household offsets a portion of the cost eligible for tax credits. For example, home owners could assume costs equal to the amount of the allowable tax credit they can use, with the insurer paying the balance.

SUMMARY OF PRIMARY FINANCING MECHANISMS

	Section 202	Low Income Tax Credit	McKinney *	Section 8	Housing Vouchers	Tax Exempt Multi-family Bonds	Tax Exempt Single-family Bonds	Low Interest Access Loans	Innovative Housing Demos	Rehabilitation Service Contracts
Applicant										
Builder/Developer		X				X			X	
Non-Profit Sponsor	X	X	**			X			X	X
Consumer				X	X		X	X		
Housing Type										
Single-Family		X					X			
Multifamily	X	X	X	X	X	X			X	
Group Homes/Shared Living Environment	X	X	X	X		X			X	X
Cooperatives	X	X	X	X	X				X	
Use of Funds										
Acquisition/Development	X	X	X			X			X	
Construction/Rehabilitation	X		X			X		X		
Management/Operations										X
Mortgages	X					X	X		X	
Rental Subsidies	X			X	X					X
Financing Subsidy										
Front-End	X	X				X	X	X		
Operating	X			X	X					X

* McKinney - Permanent Housing for Handicapped Homeless

** Applicant is the State

AMERICAN FOUNDATION FOR THE BLIND
15 WEST 16th Street
NEW YORK, NY 10011

APPLICABILITY OF PRIMARY FINANCING MECHANISMS TO CASE MODELS

Housing Type	Section 202	Low Income Tax Credit	McKinney *	Section 8	Housing Vouchers	Tax Exempt		Low Interest Access Loans	Innovative Housing Demos	Rehabilitation Service Contracts
						Multi-family Bonds	Single family Bonds			
Cooperative	X	X		X	X	X	X	X	X	
Small Scale Apartment	X	X	X	X	X	X			X	
Medium Scale Apartment	X	X		X	X	X			X	
Group Home	X	X	X	X	X	X			X	X
Single Room Occupancy		X				X			X	

* McKinney - Permanent Housing for Handicapped Homeless

INFORMATION RESOURCES

The following publications provide more detailed information on the housing development process and project financing:

Financing Rental Housing After Tax Reform, The National Association of Home Builders, 15th and M Streets, N.W., Washington, D.C. 20005.

Financing Land Acquisition and Development, The National Association of Home Builders, 15th and M Streets, N.W., Washington, D.C. 20005.

Francis Randolph, Bob Laux and Paul Carling, *In Search of Housing: Creative Approaches to Financing Integrated Housing*, The Center for Change Through Housing and Community Support, University of Vermont, Department of Psychology, Burlington, VT 05405.

New Money and New Methods: A Catalog of state and Local Initiatives in Housing and Community Development, National Association of Housing and Redevelopment Officials (NAHRO), 1320 18th Street, N.W., Washington, D.C. 20032.

NonFederal Housing Programs, The Urban Land Institute, 1090 Vermont Avenue, N.W., Washington, D.C. 20005. Price: \$36.

SECTION FOUR:
COMMUNITY OPTIONS

COMMUNITY OPTIONS IN THE DEVELOPMENT OF HOUSING

Housing can integrate people into a community or create small enclaves that are separate and distinct from the rest of the community. The scarcity of affordable, accessible housing for people with disabilities tends to encourage non-profit sponsors of housing for people with disabilities to develop housing exclusively for their occupancy. When housing sponsors have a waiting list of eligible individuals, many object to the idea of using their scarce resources to develop projects to house residents who are not members of their target population. Further, limits on some federal funds for developing such housing dictate the use of funds only for housing targeted to people with disabilities. Funds cannot be commingled with other funds that would encourage integration.

Obstacles to the development of stable, permanent environments that offer people of all abilities more choices can be overcome through cooperation with other segments of the housing community. One initiative to provide integrated housing for people with disabilities is the development of the Reservoir Cooperative in Madison, Wisconsin. The participation of non-profit groups representing both people with developmental and physical disabilities and older people in an affordable housing project is one type of partnership that can help to expand integrated housing options. The Reservoir was funded by financing sources targeted to the development of multifamily affordable housing.

As traditional federal resources are reduced, the challenge to develop new funding sources increases. The use of these new and often non-traditional sources can allow sponsors more flexibility in creating integrated community environments. Two innovative sources of funds that have been used for the development of housing for people with disabilities are tax-exempt bond financing and private foundation grants to provide start-up money for projects.

The Corporation for Independent Living (CIL) in Connecticut and Specialized Housing, Inc., (SHI) in Oregon, have worked with their states to use tax-exempt bonds to finance housing development and related activities. The Connecticut Development Authority issued bonds specifically for the use of CIL, while SHI accesses a fund administered by the Oregon Division of Mental Health, under a program called the Community Integration Project. The Association for Retarded Citizens of North Carolina (ARC/NC), through its subsidiary, ARC Housing Development Services (ARC/HDS), established a revolving loan fund using a grant from a private foundation. The fund provides loans or grants to local non-profits to develop or support integrated housing for people with mental retardation. ARC/HDS also provides training and technical assistance to loan or grant recipients. The training focuses on both the importance of integration and the process of developing housing that achieves it.

Nationwide, there is a trend to move funding for supportive services for persons with disabilities away from larger, institutional settings and to allow the delivery of services in the community. This change in funding priorities can allow the provision of services without unnecessarily restricting a recipient's housing options. Providers of residential services are finding new ways to deliver services in homes scattered throughout the community. The ARC of Albuquerque, New Mexico, is developing new single-family homes and townhomes in upscale residential developments. The purchase of these homes is financed in part by attracting private investors through the use of the low income housing

tax credit program. The ARC/Albuquerque provides support services to the residents. The residents also receive rent subsidies from the local housing agency.

The following section looks at these models for providing or supporting housing for individuals with disabilities in the community. Their common focus is a recognition of the importance of stable, permanent housing in integrated communities as an essential component of an individual's life. Without this, access to employment and recreation, if not impossible, is much more difficult.

Though living in a home in the community is no guarantee of integration into that community, when supports appropriate for each individual's needs, are coupled with affordable, accessible housing, the opportunity for integration is greatly enhanced. Ultimately, the only way to decrease dependence on specialized services is to provide access to the generic supports in the community. The following programs attempt to do this.

THE RESERVOIR COOPERATIVE, Madison Mutual Housing Association, Madison, Wisconsin

This cooperative apartment complex of 28 units was consciously designed to meet the needs of different markets, through the joint efforts of non-profit agencies, along with other community groups. The Madison Mutual Housing Association (MHA) is a developer of affordable housing and limited equity housing cooperatives. Access to Independence is a community agency dedicated to assisting individuals with physical disabilities to live independently. Options in Community Living assists and supports persons with developmental disabilities as they make their own choices in how and where to live. MHA is the prime sponsor of the project, with these and other groups acting as co-sponsors.

The project was conceived with the goal of creating a "multi-generational," integrated living environment. The ground-floor apartments are designed to be barrier-free, and four of the units incorporate additional accessibility features such as grab-bars in the bathroom, accessible countertops in the bathroom and kitchen, higher outlets, lower switches, and other features to facilitate occupancy by persons using wheelchairs. All units were designed to have access to a courtyard where children can play in sight of the kitchen/dining room windows. One-bedroom units are scattered throughout to facilitate interaction between families and single and elderly individuals.

The use of the cooperative development model instills a sense of ownership and control by the residents, while also guaranteeing affordability for future residents. In MHA's limited-equity cooperative, members pay a set fee to join and receive interest income earned on their membership fee during their occupancy.

Financing - The Reservoir was financed by a variety of sources, including local community development agency funds through the City of Madison, tax-exempt bond financing, bond guarantee by the state housing finance authority, substantial equity contribution by MHA, local energy rebates, and local contributions. It was a complicated package, reflecting MHA's sophisticated and growing experience in the development field.

Participation by Consumer or Nonprofit Agencies - Both Options in Community Living and Access to Independence were co-sponsors of the development. They assisted MHA in identifying the market of persons with disabilities (documentation that MHA used in its development proposal), designing the accessible units, and marketing those units. Options in Community Living provides supportive services to some of the residents who have developmental disabilities and Access to Independence provides personal care attendant services for those that need them.

Advantages and Disadvantages of the Model - Limited-equity cooperative housing offers control of one's environment similar to home ownership opportunities to people with low- to moderate-incomes, including those who may be receiving income maintenance that prohibits the accrual of substantial assets. Since residents are members in the cooperative, but do not solely own units, eligible individuals can use housing assistance payments such as Section 8 certificates or housing vouchers.

By working with an experienced developer of affordable housing instead of developing on their own, the agencies concerned with the interests of people with disabilities were able to increase housing options without creating a segregated environment, assuming the financial

risks of development or diverting their energies from the programs they administer. They were also able to increase the community's awareness of the need for housing for people with disabilities in Madison.

However, several unique characteristics of this project may not be readily replicated in some communities. Many areas of the country resist financing cooperative housing due to the absence of a tradition of cooperatives in the region. Not all communities have progressive affordable housing developers such as the MHA, which took the initiative to bring other groups together. It may not be as easy for nonprofit groups representing people with disabilities to initiate such a project in many cases. Nevertheless, the success of the Reservoir is an important model for "cooperative" ventures in other communities.

Additional Resource - *Cooperative Housing: A Development Primer*, available for \$20 from the National Cooperative Business Center, 1401 New York Avenue, NW, Suite 1100, Washington, DC 20005.

CORPORATION FOR INDEPENDENT LIVING, Wethersfield, Connecticut

The Corporation for Independent Living (CIL) has grown from its beginning in 1979 as a coalition of non-profit groups that "were frustrated with their lack of success in creating community living opportunities for people with disabilities" into a major holding company responsible for the development of over \$71 million worth of housing for 1,256 residents by 1988. CIL uses a variety of funding sources and operates through seven subsidiaries.

CIL Realty, Inc., acts as a real estate ownership entity. All of the properties are leased to other CIL member agencies that operate residential programs for people learning to live more independently.

CIL Development, Inc., operating under contracts with CIL Realty provides a full range of real estate development services, including site selection, construction and rehabilitation, and resident coordination and placement. The subsidiary also assists CIL lessee agencies in meeting various funding, licensing, and regulatory requirements.

CIL Housing, Inc., acts as a real estate ownership entity for multifamily housing for low- or moderate-income persons, including people with disabilities.

CIL Consulting, Inc., provides a number of services to member agencies that do not use CIL Realty to help them develop community housing projects. Consulting services are offered to a wide variety of groups and can encompass all stages of project development. CIL Consulting's specialty is "creative financing," working with the U.S. Department of Housing and Urban Development (HUD), the Connecticut Department of Housing, the Connecticut Housing Finance Agency, municipalities, private corporations, and conventional banks to combine public and private sector resources to develop affordable housing for limited income tenants who need support services.

CIL Management, Inc., provides management services to CIL Realty and CIL Housing properties, including rent collection, insurance management, facility inspection, and other aspects of lease administration.

CIL Financial, Inc., administers two major loan programs. Under a guarantee provided by CIGNA, a locally-based national insurance corporation, loans for start-up costs are made available to CIL lessees to assist in the development of community residences. Using funds provided by the State Department of Housing, the "Loans for Accessibility Program" makes loans to private home owners to make their dwellings accessible to and useable by household members with physical disabilities.

CIL Leasing, Inc., provides a lease service for furniture and equipment for community residences.

Before the Tax Reform Act of 1986, CIL funded housing development primarily through HUD and limited partnerships. Changes in the tax code forced CIL to seek alternatives to the limited partnership mechanism. In December 1987, the Connecticut Development Authority issued \$52 million in tax-exempt Health Care Revenue Bonds (public purpose bonds for 501(c)3 private non-profit entities) for CIL to use to finance projects. Unlike Mortgage Revenue Bonds and Multifamily Revenue Bonds, public purpose bonds are exempt from the per capita limitation on issuing volume. Thus far, over 150 residences for persons

with mental retardation or mental illness have been completed using funds from this bond issue. In December 1988, the Authority issued another \$24.7 million in Health Care Revenue Bonds that CIL will use to fund 55 new residences to house another 200 individuals.

To complement CIL Realty, which develops and owns specialized housing, CIL Housing was formed in July 1988 to develop and own low- to moderate-income multifamily housing which would also include some units set aside for persons with disabilities. The first project involves the acquisition and rehabilitation of an apartment complex in Hartford. The project is being financed through a variety of sources and the rental of some units at the fair market rate will help subsidize low-income units. The Hartford project is a unique approach to facilitate the integration of people with disabilities into generic multifamily housing.

The Loans for Accessibility Program is funded by the Connecticut Department of Housing for an available funding level of \$1.7 million. The program has provided 45 loans, totalling \$900,000 for home owners or landlords to enable households that include a person with a disability to make accessibility modifications.

Advantages and Disadvantages of the Model - Because of their specialization in housing development and related areas, CIL has experience and resources more likely to be found in a professional real estate company than in a non-profit corporation dedicated to the integration of people with disabilities into the community. As a result, CIL has succeeded in raising over \$75 million in tax-exempt bond financing and administering a loan fund of \$1.7 for accessibility modifications.

On the other hand, when a consortium of agencies forms a separate entity to develop housing, it may reduce the resources available to other groups that prefer to develop their own housing. As with other sectors of the economy, debate continues over the advisability of consolidating resources to improve efficiency or encouraging smaller entities to preserve competition.

SPECIALIZED HOUSING, INC., Salem, Oregon

Specialized Housing, Inc., (SHI) was formed in 1981 by a consortium of non-profit agencies, involved in advocacy and service provision for persons with developmental disabilities, to address the pressing need for supportive housing. SHI acts as a developer, leases properties to service provider agencies for their operation, and provides technical assistance to individuals, families, non-profit agencies and government on housing design and development. SHI also provides property management services.

SHI is currently developing 35 duplexes across the state to be leased to non-profit providers of residential services. Each duplex will provide housing for six to eight individuals with developmental or physical disabilities. At this time, SHI has developed 75 homes, which it owns and manages.

Financing - One of the major sources of financing used by SHI is the Community Integration Project. This project grew out of a need to find homes for deinstitutionalized individuals. Operated by the Oregon Department of Human Resources Division of Mental Health, the project provides loans to non-profit sponsors of supportive housing, and is funded by a tax-exempt bond of \$5 million, issued by the Oregon Housing Agency. A state appropriation of \$1,500,000 supplements the bond issue. In addition, SHI has been designated by the Bank of California as the sole recipient of a fund reservation of \$500,000, to fulfill the bank's responsibilities to the state of Oregon, under the Community Reinvestment Act.

Architectural Design - In cooperation with the Community Integration Project, SHI has developed three designs for new construction. The two-story duplexes built around the state are designed with accessible ground floors for persons who use wheelchairs. The other two designs are single-family homes, with one designed for total accessibility.

Advantages and Disadvantages of the Model - The ability to command expertise and resources is a major advantage for agencies dedicated to the development of housing. To handle a large project such as housing throughout the state requires both. The existence of an agency that can both develop and then manage a property for lease to a local provider of services can assist smaller non-profits which lack experience and resources to develop their own housing.

However, the existence of a large developer in the state may lead to fewer groups developing the ability to provide housing on their own, as well as the absorption of the available funding sources.

ASSOCIATION FOR RETARDED CITIZENS HOUSING DEVELOPMENT SERVICES, INC., Greensboro, North Carolina

A subsidiary of the Association for Retarded Citizens (ARC) of North Carolina, ARC Housing Development Services, Inc., (ARC/HDS) received a grant from a nonprofit foundation to support the development of "innovative community-based housing options" for people with mental retardation. Over the years, ARC/HDS has developed and continues to manage over 100 homes and apartments. Though most are owned by ARC/HDS, some are owned by other organizations, with ARC/HDS providing management services. The grant was used to fund two projects. The first provided training and technical assistance, and established a development fund to be used in conjunction with the U.S. Department of Housing and Urban Development (HUD) Section 202 Permanent Loan program. The loan fund assisted sponsors of HUD funded projects to pay for development costs prior to reimbursement by HUD. In addition to expediting the development process, the availability of these funds improved the financial feasibility of the projects, one condition HUD considers when evaluating applications for funds.

The second project provided training and technical assistance on creative financing options and innovative housing options, and created a revolving loan fund for use by local organizations for start up funds in the development of innovative housing options, primarily using funding sources other than HUD. The Community Housing Development Fund, as it is called, offered grants and loans for amounts not to exceed \$25,000. While also funding traditional approaches such as group homes or supportive living apartments, the underlying purpose of this fund is to promote innovative options such as the development of condominiums or other opportunities for individual home ownership for people with mental retardation.

For example, one project funded with a \$25,000 grant used \$10,000 of the grant as a down payment on a duplex, and the other \$15,000 to cover start-up costs. The duplex was purchased from HUD which had repossessed it from the previous owner. One side of the duplex is rented at the market rate to an employee of ARC Supported Employment program. The other side is rented to two individuals with mental retardation or other developmental disabilities. They live independently, with the program employee providing limited support as needed. Section 8 rental subsidies have been applied for to supplement the residents' rent payments. With this subsidy and the grant, the project should be self supporting. The agency sponsoring this project is hoping it will serve as a model for replication by other agencies in North Carolina.

Financing - The ARC/HDS project is funded through a \$350,000 grant from the Kate B. Reynolds Health Care Trust. The Community Housing Development Fund was capitalized with \$160,000 out of the grant, most of which was disbursed in the form of grants. ARC/HDS will be seeking additional funding to recapitalize the fund.

Advantages and Disadvantages of the Model - By creating its own revolving loan fund, the ARC/HDS has been able to influence the development of housing by local non-profit affiliates without assuming the responsibility for sponsoring or operating the housing. It encourages local groups to create alternative development models free of the constraints of traditional financing for development of housing for people with disabilities. The grant has also been used to facilitate projects that use the Section 202 program, decreasing the time involved and in some instances, the cost.

Although the goal of the Community Housing Development Fund is to foster the creation of innovative models for providing housing to people with disabilities, ARC/HDS's role is limited to acting as a funding agent and a provider of technical assistance and training. While some local agencies proposed innovative projects, others proposed standard housing. The project has a self-evaluation scheduled for July 1989.

ASSOCIATION FOR RETARDED CITIZENS OF ALBUQUERQUE, Albuquerque, New Mexico

The Association for Retarded Citizens of Albuquerque (ARC/Albuquerque) is using an innovative approach to help finance the development of scattered site supportive housing for persons with mental retardation. ARC/Albuquerque formed limited partnerships, which in turn purchased new townhouses or single-family homes. This use of private financing to raise equity relies on the low-income housing tax credit as an incentive for investors. The limited partnerships lease the homes to residents through the ARC/Albuquerque, which guarantees leases for 15 years.

A limited partnership is formed to purchase each home, with individual investments of \$5,000 apiece. Since the homes have never been occupied, they are eligible for the maximum tax credit. In one instance, each of six investors contributed \$5,000 toward a \$30,000 down payment on a \$100,000 home, with the balance financed through a conventional loan. Investors share both the \$7,200 tax credit based on an \$80,000 eligible cost and the income (or loss) on the home. Further, rents, including rental subsidies, cover the fees and mortgage expenses of the home.

Investors can claim the tax credit only on housing that is leased to low-income tenants. The residents of the ARC/Albuquerque housing qualify easily under the tax credit guidelines. Typically three residents share the single-family homes, while two or three residents share the townhouses. Rents (including utilities) are kept lower than the market rate, a requirement of the tax credit program. The rent restriction (although essential to providing low cost housing) makes it difficult to maintain sufficient cashflow without another subsidy. ARC/Albuquerque has obtained Section 8 rent certificates for each of the residents, thereby providing the investors with the fair market rent. Section 8 certificates or housing vouchers, if available, can be used as a source of subsidy without reducing the amount of the credit, improving the return on the investment.

Advantages and Disadvantages of the Model - The use of private equity and conventional financing allows greater flexibility in choosing homes in integrated settings than traditional federal direct loan programs that target people with disabilities.

In most areas, the low-income housing tax credit does not provide an attractive return on the investment without another subsidy. The tax credit is extremely complex and requires access to substantial legal and accounting expertise. Reliance on professional services normally adds to the cost substantially. As in ARC's case, the work has been done for the agency on a voluntary basis, in effect providing another subsidy.

SECTION FIVE:
DEVELOPMENT MODELS

INTRODUCTION

This section provides case studies of development models for housing to meet the needs of persons with disabilities and their families. The cases presented include the following types of housing.

- Housing Cooperatives
- Small Scale Apartment Building
- Medium-Scale Apartment Building
- Supportive Living Environments
- Single-Room Occupancy (SRO) Building

These models were selected because they can produce housing that is affordable, require relatively minimal maintenance by individual residents and easily accommodates supportive living services if required by residents.

Each case includes an introductory section outlining assumptions used in the model and is followed by a sources and uses of funds table and a stabilized income and operating expense statement. At the end of each case model, sources of debt and equity financing on the various financing mechanisms is provided in Section Three.

While development budgets, revenues, and operating expenses for projects similar to those in the models will vary by local markets, the models provide prospective project sponsors with information on how financing from various sources can be layered for similar projects.

HOUSING COOPERATIVES

INTRODUCTION

Housing cooperatives may take two forms of ownership: 1) the cooperative corporation owns or leases the building and land; and 2) the tenant-stockholders of the corporation receive exclusive rights to lease specific units from the corporation.

A housing cooperative can be structured in several ways:

- Market Rate Cooperatives - Tenant/stockholder shares in the cooperative are sold at full market value in both the original sale by the corporation and in resales by tenant/stockholders.
- Limited Equity Cooperatives - The cooperative corporation places a limit on the return, or profit, allowed when shares are sold. The return is typically fixed at between 1 and 10 percent of the down payment made when the tenant/stockholder joined the cooperative. Limited equity cooperatives maintain the affordability of the units to moderate-income households.
- Leasing Cooperatives - The land and improvements are owned by an investor and rented to the cooperative corporation on a long-term basis, sometimes with an option to buy. Leasing cooperatives are an ownership structure that enables the investor/owner to take advantage of the low-income rental housing tax credit.

Because cooperative members own a share of the cooperative corporation and lease, rather than own, their individual units, Section 8 certificates and housing vouchers may be used by tenant/stockholders.

Housing cooperatives are typically financed under a blanket mortgage based on the value of the property. This arrangement can allow membership in the cooperative by individuals who may not have income sources that qualify them for a conventional mortgage but who do have a source of funds (e.g., Section 8 certificates or vouchers) to cover their pro rata share of monthly carrying charges.

A limited number of blanket mortgage sources are available to finance cooperatives and a 50 to 80 percent loan-to-value ratio is typical. Cooperative members, or subsidy sources in the case of limited equity cooperatives, must provide the remainder of financing required.

The case study used for illustrative purposes assumes new construction of a 30-unit integrated cooperative financed with tax-exempt bond proceeds from a pooled issue, an interest-only "soft" second mortgage provided by the city, a foundation grant and equity contributed by the sponsor for which only a limited return is expected.

The example used is of an integrated project for people both with and without disabilities. A 30-unit building only for people with disabilities is considered too concentrated.

PRO FORMAS - HOUSING COOPERATIVES

Assumptions:

- 30 Garden/Townhouse Units
- New Construction

Sources and Uses of Funds:

A) Uses of Funds (Development Budget)

Site Acquisition	\$ 100,000
Site Improvements	50,000
Construction	1,200,000
Architecture/Engineering	70,000
Financing, Legal, and Development Fees	<u>260,000</u>
TOTAL USES OR DEVELOPMENT COST	\$1,680,000
AVERAGE COST PER UNIT	\$ 56,000

B) Sources of Funds

Tax-Exempt Bond Proceeds (from pooled issue)	\$1,000,000
Second Mortgage (city loan)	375,000
Non-Profit Sponsors Equity	200,000
Foundation Grant	<u>105,000</u>
TOTAL SOURCES OF FUNDS	\$1,680,000

Annual Income and Expenses:

A) Income

Low-Income Units	(10 @ \$325/Month)	\$ 39,000	
Moderate-Income Units	(10 @ \$425/Month)	51,000	
	(10 @ \$550/Month)	<u>66,000</u>	
TOTAL INCOME			\$156,000

B) Expenses

Operating Expenses/Utilities	\$ 59,280	
Replacement Reserve	<u>4,680</u>	
TOTAL OPERATING EXPENSES		\$ 63,960

NET OPERATING INCOME (NOI)¹ \$ 92,040

AVAILABLE FOR FIRST MORTGAGE
DEBT SERVICE @ 85% COVERAGE² \$ 78,234

FIRST MORTGAGE - BONDS, \$1,000,000 @ 6.75%,
ANNUAL PAYMENT \$ 78,572

SECOND MORTGAGE - CITY LOAN,
\$375,000 @ 3% INTEREST ONLY,
(DEFERRED PRINCIPAL PAYMENT) \$ 11,250

RETURN ON EQUITY - (\$200,000) \$ 2,218
1.11%

¹NOI = Income less operating expenses before debt service.

²NOI x 85%.

FINANCING SOURCES FOR COOPERATIVES

In addition to the financing sources used in the case model, the following sources could be used by finance cooperatives:

Debt Financing:

- Mortgage Insurance - U.S. Department of Housing and Urban Development (HUD) and Federal Housing Administration (FHA) mortgage insurance is not a direct loan source, but rather is a guarantee of a mortgage loan made by other sources (financial institutions, tax-exempt bond issues). Mortgage insurance provides lenders with a level of comfort to make loans they may otherwise reject as too risky. Mortgage insurance provides sponsors with higher loan-to-value ratios so that they are required to provide less equity. Because the mortgage insurance provides a guarantee of the loan, the interest rate on the mortgage is typically lower than it would be on an uninsured loan. Cooperatives are eligible to apply for mortgage insurance under HUD's Sections 221 and 223(f) programs. Projects are eligible for 90 to 100 percent project financing if debt service coverage meets FHA criteria. Use of mortgage insurance programs is most feasible for projects of \$2 million and higher given the costs involved and relatively lengthy processing time.
- National Cooperative Bank (NCB) - NCB is a financial institution organized under Congressional mandate specifically to finance cooperative businesses and housing. NCB provide 15-year mortgages for up to 80 percent of the project's appraised value at market interest rates. NCB does not subsidize lower-income cooperatives but rather was organized to fill a void created by other financial institutions that were less familiar with cooperative ownership and, therefore, reluctant to finance cooperatives.
- Federal National Mortgage Association (FNMA) Secondary Market for Cooperative Blanket and Share Loans - In 1984, FNMA introduced the first national secondary market for cooperative blanket mortgage and cooperative share loans. The creation of a secondary market gives lenders a greater incentive to make cooperative loans because they are able to sell them immediately on the secondary market and use the proceeds to originate new loans. Blanket mortgages cover the entire property while share loans are a mechanism for individuals to finance purchase of a cooperative share (unit). At present, cooperative share loans are made only for units in market rate cooperatives, while blanket mortgage loans are available for limited equity and market rate cooperatives.

FNMA will purchase cooperative blanket loans with terms of three, five and seven years and up to 30-year amortization and fixed rate mortgages with maximum term of up to 15 years with a 10-year call option and up to 30-year amortization.

- State and Local Government Agencies - Housing trust and other funds available to finance rental housing may be available for limited equity cooperatives. Terms of financing vary by locale and program but generally would take the form of second mortgages with below-market interest rates or grants to subsidize the interest rate on a first mortgage. In addition to state or local housing trust funds, sources may include Community Development Block Grants or local Urban Development Action

Grants (UDAG) (i.e., repayments to localities on UDAG loans made several years ago are available for recycling to new projects).

- Home Ownership Assistance Programs - Local government programs that provide grants for down payments or below-market interest rate loans for first-time home buyers generally allow cooperative share financing.
- HUD Rental Rehabilitation Loans - Loan of \$5,000 to 8,500 per unit can be used to finance rehabilitation of limited equity cooperatives located in lower-income neighborhoods.

Equity Financing:

- Foundation and Religious Organizations - Charitable organizations may provide grants for limited equity cooperatives. Local rather than national foundations are more likely to provide funds for housing assistance.
- Local Initiative Support Corporation (LISC) and Enterprise Foundation - Two national organizations provide grants and low-interest loans for the development of affordable housing. LISC has a multimillion equity fund for projects eligible for the low-income housing tax credit. The Enterprise Foundation focuses its efforts on making housing affordable to very low-income households. It has also assisted tenant groups in converting rental buildings into limited equity cooperatives. Each organization targets its activities to specific cities across the United States.

SMALL SCALE APARTMENT BUILDING

INTRODUCTION

Acquisition of small apartment buildings requiring minimal to moderate rehabilitation provides an option for increasing the supply of housing for persons with disabilities and their families. For illustrative purposes, a 10-unit building is presented as a case study. Similar financing could be used for buildings that are either somewhat larger or smaller.

The case assumes a structurally sound building acquired at an average cost of \$28,000 per unit, with an average of \$6,000 per unit to be spent on minimal rehabilitation (e.g., accessibility improvements, cosmetic improvements such as painting and floor covering, selective replacement of appliances on an as-needed basis). All units are assumed to have two bedrooms.

In the case considered, all units are rented to households with incomes at 60 percent of area median (in this case, \$350 net rent after an allowance for utilities paid by tenants). The building would therefore be eligible for the low income housing tax credit. Acquisition of an existing building qualifies for the 4 percent credit, while rehabilitation costs qualify for a 9 percent credit if federal funds are not used to cover rehabilitation costs. Calculation of the tax credit amount is shown in a table on the following page.

The building in this case is financed with a conventional mortgage at the market interest rate. Equity is raised through use of the low-income housing tax credit. The building generates sufficient income to qualify for a 75 percent mortgage based on debt service coverage of 110 percent. Depending on the financial institutions, debt service coverage ratios may range between 1.1 and 1.2 (i.e., the lender requires a cash flow "cushion" of 10 to 20 percent over the mortgage payment amount). Although debt service coverage is not the only factor considered by a financial institution in determining mortgage amount, it provides an approximate estimate of the likely mortgage that could be obtained.

PRO FORMAS - SMALL SCALE APARTMENT BUILDING

Assumptions:

- Acquisition and Minor Rehabilitation
- 10-Unit Building
- All Two-Bedroom Units
- Structurally Sound
- Units Rented to Households @ 60% of Median Income
- Low-Income Housing Tax Credit

Sources and Uses of Funds:

A) Uses of Funds (Development Budget)

Building Acquisition	\$280,000
Building Rehabilitation	60,000
Financial, Legal, and Closing Fees	<u>28,000</u>
TOTAL USES OR DEVELOPMENT COST	\$368,000
 AVERAGE COST PER UNIT	 \$ 36,000

B) Sources of Funds

Conventional Mortgage	\$227,200
Equity - Low-Income Housing Tax Credit	<u>140,800</u>
TOTAL SOURCES OF FUNDS	\$368,000

Annual Income and Expenses:

A)	<u>Income</u>		
	10 units @ \$250/Month	<u>\$42,000</u>	
	TOTAL INCOME		\$42,000
B)	<u>Expenses</u>		
	Operating Expenses/Utilities	\$15,000	
	Replacement Reserve	<u>1,250</u>	
	TOTAL OPERATING EXPENSES		<u>\$16,250</u>
	NET OPERATING INCOME (NOI) ¹		\$25,750
	AVAILABLE FOR DEBT SERVICE @ 90% COVERAGE ²		\$23,175
	CONVENTIONAL MORTGAGE, \$227,200 @ 10.25%, ANNUAL PAYMENT		\$23,175
	RETURN ON EQUITY - \$140,800 (CASH RETURN)		\$ 2,575

Calculation of Tax Credit:

BUILDING ACQUISITION		\$280,000
BUILDING REHABILITATION (INCLUDES SOFT COSTS)		\$ 88,000
APPLICABLE PERCENTAGE (OF LOW INCOME UNITS)		100%
ACQUISITION		\$280,000
REHABILITATION		\$ 88,000
ANNUAL TAX CREDIT		
Acquisition @ 4%	\$ 11,200	
Rehabilitation @ 9%	<u>\$ 7,920</u>	
ANNUAL TAX CREDIT TO EQUITY INVESTORS PLUS CASH FLOW		\$ 19,120 <u>\$ 2,575</u>
TOTAL		\$ 21,695
RETURN ON EQUITY		15.4%

¹NOI = Income less operating expenses before debt service.

²NOI x 90%.

SOURCES OF FINANCING FOR SMALL-SCALE APARTMENT BUILDINGS

In addition to the financing sources used in the case model, the following sources could be used to finance small-scale apartments:

Debt Financing:

- State and Local Government Agencies - Housing trust funds are available in some areas as a source of below-market rate first and/or second mortgages. Available terms and conditions vary by jurisdiction. Community Development Block Grants or local urban development action grant (UDAG) programs funded by repayments made from earlier UDAG projects may also be a source of mortgage money for rental units targeted to lower-income households.
- Loans for Accessibility Improvements - Some states and localities make below-market rate loans available for accessibility improvements. In some instances, loans are limited to owner-occupied units; however, they may be available for rental properties as well. In the case example, it may be possible to obtain an accessibility improvements loan for that portion of the \$60,000 rehabilitation budget used for accessibility improvements, with the remainder of the mortgage financed conventionally.
- Tax-Exempt Bonds - Acquisition of a building requiring minimal to moderate rehabilitation would generally not be eligible for tax-exempt bond financing. A small building requiring substantial rehabilitation could use tax-exempt bonds only if it were part of a pool issued to fund several properties.
- U.S. Department of Housing and Urban Development Rental Rehabilitation Loans - Loans of \$5,000 to \$8,500 per unit (depending on number of bedrooms) could be used to correct substandard conditions, make essential improvements, or repair building systems. Rental rehabilitation loans are generally targeted to properties occupied by lower-income tenants in lower-income neighborhoods.

Equity Financing:

For properties targeted to low- and moderate-income tenants, the low-income housing rental tax credit or grants from a foundation or religious organization are the primary sources of equity available.

Small apartment buildings with market rate rents would have to generate enough cash flow to provide a competitive rate of return to investors.

In a limited number of cases, buildings that qualify for designation as historic structures and require substantial rehabilitation can use historic rehabilitation tax credits as a mechanism for raising equity. Since the historic tax credit is based on rehabilitation expenditures, a structure requiring only minimal or moderate rehabilitation would not qualify.

MEDIUM SCALE APARTMENT BUILDING

INTRODUCTION

To increase the number of housing units for persons with disabilities in integrated residential environments, advocacy groups may pursue joint development efforts with non-profit housing developers. Since most affordable housing receives some government subsidy, that in turn requires that 5 percent of the units be accessible by standards of ANSI 117.1. An advocacy group and a non-profit may undertake the development of accessible housing with the aim of providing 10 to 30 percent of the units as assessable units. This example assumes such a development and provides parameters for financing.

The implementation of the Fair Housing Act Amendments of 1988 for adaptable features will provide a minimal level of accessibility in most new apartments built for occupancy after March 1991. However, in the absence of substantial new funding sources, most affordable housing is likely to continue to be produced through the rehabilitation of existing apartment buildings. Under the new amendments, though, tenants with disabilities now have legal authority to make modifications to rental units they occupy.

The 30-unit building considered in this case is assumed to require substantial rehabilitation of an existing vacant building. An advocacy organization arranges to co-sponsor the project with a non-profit developer and plans to target 20 percent (or six of the 30 units) to persons on its housing waiting list. The advocacy organization agrees to provide a service package for individuals it refers, while the non-profit developer has overall responsibility for management of the building.

Development of affordable rental housing typically requires layering of financing from several sources. In this case, the non-profit developer assumes responsibility for securing a conventional mortgage (most likely a low loan-to-value mortgage if building rents are to be moderate), a "soft" second mortgage from a state or local government source, and possibly an equity syndication through use of the low-income housing tax credit. Even with these sources, there may be a gap in the financing requirements. The advocacy group, in this instance, used its contacts to obtain a grant (foundation, religious organization, local community fund such as United Way) for the project that would not otherwise be available. Locally based foundations are more likely to consider applications for housing development than are nationally based foundations, which are not typically inclined toward local improvement projects.

In the following tables, a development budget and sources of funds for the project is outlined along with an income and expense statement.

PRO FORMAS - MEDIUM SCALE APARTMENT BUILDING

Assumptions:

- Substantial Rehabilitation of a 30-Unit Building
- One- and Two-Bedroom Units
- Low-Income Housing Tax Credit

Sources and Uses of Funds:

A) Uses of Funds (Development Budget)

Building Acquisition	\$ 240,000
Building Rehabilitation	810,000
Architecture/Engineering	48,600
Financial, Legal, and Closing Fees	<u>140,000</u>
TOTAL USES OR DEVELOPMENT COST	\$1,238,600

B) Sources of Funds

Conventional Mortgage	\$ 667,000
Building Acquisition Loan - City	240,000
Equity - Tax Credit	200,000
Foundation Grant	<u>131,600</u>
TOTAL SOURCES OF FUNDS	\$1,238,600

Annual Income and Expenses:

A) Income

Low-Income Units	(10 @ \$325/Month)	\$ 39,000	
Moderate-Income Units	(10 @ \$425/Month)	51,000	
	(10 @ \$485/Month)	<u>58,200</u>	
TOTAL INCOME			\$148,200

B) Expenses

Operating Expenses/Utilities	\$ 56,316	
Replacement Reserve	<u>4,446</u>	
TOTAL OPERATING EXPENSES		\$ <u>60,762</u>

NET OPERATING INCOME (NOI)¹ \$ 87,438

AVAILABLE FOR DEBT SERVICE @ 82% COVERAGE² \$ 71,700

FIRST MORTGAGE, \$667,000 @ 10.25%,
ANNUAL PAYMENT \$ 71,700

SECOND MORTGAGE - CITY LOAN,
\$24,000 @ 5% INTEREST ONLY,
(DEFERRED PRINCIPAL) \$ 12,000

NET CASH FLOW \$ 3,738

¹NOI = Income less operating expenses before debt service.

²NOI x 82%.

Calculation of Tax Credit:

ELIGIBLE BASIS - TOTAL PROJECT COSTS

Building Acquisition	\$240,000
Building Rehabilitation (includes soft costs)	\$998,600

APPLICABLE PERCENTAGE (percent of low-income units) 33%

QUALIFIED BASIS

ELIGIBLE BASIS X APPLICABLE PERCENTAGE

Acquisition	\$ 79,200
Rehabilitation	\$329,538

ANNUAL TAX CREDIT

Assumes city loan is from a non-federal source		
Acquisition - 4%	\$ 3,168	
Rehabilitation - 9% (over \$2,000 per units)	<u>29,658</u>	
		\$ 32,826
Assumes city loan is from a federal source		
Acquisition - 4%	\$ 3,168	
Rehabilitation - 4%	<u>13,181</u>	
		\$ 13,328

SOURCES OF FINANCING FOR A MEDIUM-SCALE APARTMENT BUILDING

In addition to the financing sources used in the case model, the following sources could be used to finance medium-scale apartments:

Debt Financing:

- Tax-Exempt Bonds - New construction or substantial rehabilitation of an existing building could generally qualify for tax-exempt bond financing. Because of the substantial costs of issuance, the project would have to be financed through a pooled bond issue for several smaller projects.
- State and Local Government Agencies - Housing trust funds are available in some areas as a source of construction and/or permanent first or second mortgages at below-market interest rates. Terms and conditions of financing vary by jurisdiction. Community Development Block Grants or local urban development action grant (UDAG) programs funded by repayments made from earlier UDAG-funded projects may also be a source of mortgage money for rental units targeted to lower-income households.
- U.S. Department of Housing and Urban Development Rental Rehabilitation Loans - Loans of \$5,000 to \$8,500 per unit (depending on the number of bedrooms) can be used for rehabilitation of existing rental properties. Rental rehabilitation loans can be used to correct substandard conditions, make essential improvements, or repair building systems. Rental rehabilitation loans are generally targeted to properties occupied by low-income tenants in low-income neighborhoods.

Equity Financing:

- Foundations and Religious Organizations - Charitable organization may provide grants for projects with units targeted to low-income persons with disabilities.
- Local Initiative Support Corporation (LISC) and Enterprise Foundation - Two national organizations that provide grants and low-interest loans for development of affordable housing may be a source of equity. LISC has established a multimillion equity fund for projects eligible for the low-income housing tax credit. Each organization targets its activities to specific cities across the United States.

SUPPORTIVE LIVING ENVIRONMENT

INTRODUCTION

Supportive living environments can provide either a transitional or permanent living environment for individuals with disabilities. The recent trend in supportive living environments has been toward downscaling by converting single-family homes with three to five bedrooms to accommodate smaller groups in a shared living environment.

Homes scattered in neighborhoods with good access to public transportation, shopping, and other community facilities provide the most integrated shared living environment for persons with disabilities. Depending on the service needs of residents, supportive living environments may require a live-in counselor.

The development model described in this section shows how the low income housing tax credit may be used to raise equity for the purchase of single-family residences with three to five bedrooms for use as a group home or shared living environment.

In this case, a non-profit organization acts as general partner and purchases newly constructed single-family detached homes in traditional subdivisions. The houses are located in suburban middle-class neighborhoods close to bus stops, shopping centers, and other amenities. Since the houses have never been occupied, they are eligible for the maximum (9 percent) low income housing tax credit. The houses are then leased by the non-profit group to persons with disabilities. Separate leases are executed with each resident of the houses (one resident per bedroom). Each resident has a Section 8 certificate or housing voucher and pays fair market rents. The non-profit group as general partner guarantees the leases for 15 years to ensure financing through conventional bank sources.

The equity or down payment for each house is raised through syndication of the low income rental housing tax credit. A 25 to 30 percent down payment is made on each house with the balance financed through a conventional mortgage. Each investor contributes a \$5,000 payment up front and receives a 16.6 percent ownership share in the property. Investors are typically younger upwardly mobile individuals falling within the income range eligible to take advantage of the tax credit. Individual private placement memoranda are prepared for each property.

The following tables show how the investment is structured and describe alternative sources for financing supportive living environments.

PRO FORMAS - SUPPORTIVE LIVING ENVIRONMENT

Assumptions:

- Purchase of New Three-Bedroom House
- Rent to Three Individuals with Disabilities
- Low-Income Housing Tax Credit

Sources and Uses of Funds:

A) Uses of Funds

Purchase Price	\$ 97,000
Loan Fees	2,750
Marketing	<u>2,000</u>

TOTAL USES \$101,750

B) Sources of Funds

First Mortgage	\$ 71,758
Syndication Proceeds - Tax Credit	<u>30,000</u>

TOTAL SOURCES \$101,750

Annual Income and Expenses:

A) Income - Annual Rent \$ 10,395

B) Expenses

Management Fees	\$ 795
Maintenance Fees	\$ 1,040

NET OPERATING INCOME (NOI)¹ \$ 8,561

MORTGAGE PAYMENT \$ 8,526

CASH FLOW BEFORE TAXES \$ 35

TAX ANALYSIS

Interest on Mortgage	\$ 8,132 (subtract from NOI)
Annual Depreciation	\$ 2,904 (subtract from NOI)
Taxable Income (Loss)	\$ (2,475)
Low-Income Housing Tax Credit ²	\$ 7,296
Adjusted After Tax Cash Flow	\$ 7,331 (\$7,296 + \$35)

¹NOI = Income less operating expenses before debt service.

²9% of purchase price of house less land value.

SOURCES OF FINANCING FOR SUPPORTIVE LIVING ENVIRONMENTS

In addition to the financing sources used in the case model, the following sources could be used to finance supportive living environments:

Debt Financing:

- State and Local Housing Finance Agencies - A number of state and local housing finance agencies offer below-market rate construction and/or mortgage financing for properties to be operated as supportive living environments. Terms and conditions vary by jurisdiction.
- Tax-Exempt Mortgage Bonds - Supportive living environments have been financed through pooled issues of tax-exempt mortgage revenue bonds issued by state or local housing finance agencies. Because of the cost associated with underwriting bonds, several projects must be combined or pooled into a single issue in order to spread the costs of issuance.
- Essential Function Bonds - Essential function bonds can be issued by state and local housing finance agencies for non-profit sponsors of board and care facilities. Board and care units typically feature four bedrooms each with a full bath and a central dining area, kitchen, and common living area. The bonds can be coinsured with U.S. Department of Housing and Urban Development Section 232 mortgage insurance to achieve below-market interest rate financing. As with tax-exempt bonds, several individual board and care projects would be pooled into a single bond issue to spread the issuance costs.
- Section 202 - U.S. Department of Housing and Urban Development's Section 202 Direct Loan Program provides direct mortgage financing for supportive living environments accommodating not more than 15 persons.

Equity Financing:

- McKinney Permanent Housing for Handicapped Homeless Program - U.S. Department of Housing and Urban Development provides assistance in the form of forgivable loans or grants to non-profit sponsors of project housing up to eight homeless persons with disabilities. Funds are awarded to states and channeled to non-profit sponsors. U.S. Department of Housing and Urban Development funds must be matched by local and state funds.
- Grants from Foundations and Religious Organizations - Charitable organizations may make funds available to satisfy equity requirements.

SINGLE-ROOM OCCUPANCY BUILDING

INTRODUCTION

In a number of high cost metropolitan areas, single-room occupancy (SRO) buildings are being constructed or substantially renovated to provide affordable housing to low-income single individuals. SROs have individual units comparable in size to a hotel room (150 to 250 square feet). Newer developments typically have built-in furniture and storage space, individual sinks and toilets, and space for a microwave oven and small refrigerator. Shower and bath facilities are located on each floor and shared by residents.

Although SROs have some drawbacks in terms of unit size and high density, they can, if properly managed, provide a viable housing option for persons, including those with disabilities, who might otherwise be homeless. The most successful SROs include residents employed in minimum wage jobs, elderly persons on limited incomes, and students, along with low-income persons with disabilities.

The case profiled in this section is a 200-unit SRO constructed near the central business district of a major metropolitan area. Twenty percent of the units have been designated as very low rent units available to persons at risk of homelessness as referred by city agencies. Some are recovering from mental illness and receive services provided by city and non-profit agencies. The project was financed with a conventional mortgage and a low-interest second mortgage provided by city.

As an alternative to new construction, SROs can also be developed through rehabilitation of existing buildings (e.g., recycled surplus school buildings, old YMCAs that offered room rentals, and older hotels). The SRO concept is likely to expand as low-income housing shortages continue in high-cost urban areas. Advocacy groups familiar with successful SRO models will be in a stronger position to work with developers in securing units that can serve some members of their target population.

PRO FORMAS - SINGLE-ROOM OCCUPANCY BUILDING

Assumptions:

- New Construction of 200-Unit Building

Sources and Uses of Funds:

A) Uses of Funds

Site Acquisition	\$ 560,000
Construction (hard and soft costs)	<u>3,000,000</u>
TOTAL USES	\$3,560,000

B) Sources of Funds

Conventional Bank Financing, 30-Year Amortization, 10.5% Interest	\$2,200,000
Second Mortgage - City Loan, Interest Only, 3%	500,000
Equity (Developer Land Contribution Plus Cash)	<u>860,000</u>
TOTAL SOURCES	\$3,560,000

Annual Income and Expenses:

A) Income

41 Units @ \$220/Month	\$108,240
115 Units @ \$270/Month	372,600
40 Units @ \$300/Month	144,000
4 Units @ \$350/Month	<u>16,800</u>

GROSS RENTS \$641,640

LESS VACANCY (5%) 32,082

EFFECTIVE GROSS INCOME \$609,558

B) Expenses - Operating Expenses 269,000

NET OPERATING INCOME (NOI)¹ \$340,558

AVAILABLE FOR DEBT SERVICE @ 70% COVERAGE² \$241,500

FIRST MORTGAGE, \$2,200,000 @ 10.25% \$241,500

SECOND MORTGAGE - CITY LOAN,
\$500,000 INTEREST ONLY @ 3%
(DEFERRED PRINCIPAL) \$ 15,000

NET CASH FLOW \$ 84,058

¹NOI = Income less operating expenses before debt service.

²SROs typically qualify for lower loan-to-value than apartments because financing sources are less familiar with new development of such properties.

SOURCES OF FINANCING FOR SINGLE-ROOM OCCUPANCY BUILDINGS

Debt Financing:

- Tax-Exempt Mortgage Bonds - Because SROs are a relatively new concept for large-scale provision of affordable housing, not all jurisdictions have revised their bond program guidelines to accommodate them. However, most housing finance agencies are willing to consider financing proposals.
- State and Local Government Agencies - Housing trust funds administered by state and local housing finance agencies may provide first or second mortgages at below-market interest rates. Community Development Block Grant funds may also be a source of debt financing.
- SRO Demonstration Programs - Some jurisdictions have appropriated funds specifically for SRO demonstrations. Terms and conditions of financing vary by jurisdiction. State and local housing finance agency representatives can provide information on locally available funds.

Equity Financing:

- Low-Income Rental Housing Tax Credit - The tax credit may be used for SRO buildings.
- Foundations and Religious Organizations - Charitable organizations may provide funding for SRO projects in their communities.

SECTION FIVE:
SAMPLE WORK SHEETS

INTRODUCTION

This section contains sample work sheets to assist project sponsors in estimating project development budgets, sources and uses of funds, and operating revenues and expenses. While every line item may not be applicable to a particular project, the sample work sheets provide a checklist to ensure that all project budget items are included in the sponsors financial feasibility calculations.

SAMPLE WORKSHEETS

PROJECT DEVELOPMENT BUDGET

Site Acquisition (new construction)	_____
Building Acquisition	_____
Construction costs	_____
Contractors overhead and profit	_____
Professional services fees (i.e. architects, lawyers, accountants)	_____
Building permits	_____
Utility connection fees	_____
Surveys, soil tests	_____
Financing fees	_____
– Construction period interest	_____
– Points and fees for loan commitments	_____
– Syndication fees if low income housing tax credit is used	_____
–Letter of credit fees	_____
–Underwriting and issuance fees if bonds are used	_____
Property tax during construction	_____
Insurance	_____
 Title and recording costs	_____
Development management fees	_____
Working capital and lease-up expenses	_____
Contingency	_____
Total Project Budget	_____

SAMPLE WORKSHEET

SOURCES AND USES OF FUNDS

SOURCES OF FUNDS

Loan Proceeds

(List Sources, Amounts and Terms)

First Mortgage

Subordinate Debt

Equity Proceeds

Foundation Grants

Contributions

Equity Raised through use of

Low Income Rental Tax Credit

Interim Funding Sources for Letter of Credits:

Construction Guarantees

Operating Deficit Guarantees

Total Sources of Funds

USES OF FUNDS

All project development costs:

Site and/or building acquisition

Construction costs

Financing costs

Other projects soft costs

Interim financing letters of credit

Total Uses of Funds

SAMPLE WORKSHEETS

OPERATING REVENUES AND EXPENSES

REVENUES

Rental Income by Unit Type

Less: Vacancy Allowance (5%)

Other Income:

Laundry

Parking

Total Revenues

OPERATING EXPENSES

Utilities (Common Area if tenants pay utilities)

Water and Sewer Fees

Trash Removal

Payroll

Employees Payroll Taxes, Fringe Benefits

Insurance

Property taxes

Grounds Maintenance

Property Management

Repairs

Supplies

Maintenance of HVAC, Elevators

Reserve for Replacement

Total Operating Expenses

Net operating Income

Available for debt Service

(Net Operating Income divided by First Mortgage Debt Service
Coverage Factors)

Debt Service Payments

Net Cash Flow

CONCLUSIONS

There are no quick and easy solutions to increasing the supply of affordable housing for persons with disabilities. As is the case with affordable housing in general, financing is complicated by the need to layer funds from multiple sources and by the competition for limited subsidy funds. While the low-income housing tax credit can be used in some cases to raise project equity, in many cases the benefits to investors do not generate the equity sufficient to complete project financing without additional subsidies.

On the debt financing side, many state and local government agencies have initiated new housing programs. Local and state housing finance agencies and community development agencies may have funds that non-profit developers can borrow at slightly lower than market rates. Some have loan pools specifically for the development of housing for people with disabilities, but even those that do not may have a program that can be used for such developments.

Larger, more sophisticated sponsors of housing for people with disabilities, usually a housing development corporation formed by a coalition of advocacy groups, have been able to work with their state agencies with bond-issuing authority to have tax-exempt bonds issued specifically for the development of scattered-site housing, throughout the state. As is the case with the Corporation for Independent Living in Connecticut, only a developer with significant resources and expertise is likely to be able to have a bond issued specifically for their use. Another model, which was used by the Community Integration Project of the human services agency in Oregon, is for a state agency to administer a program, funded by the state's housing finance agency, to finance the development of housing for people with disabilities by non-profit sponsors.

On the other hand, the emergence of a new generation of sophisticated non-profit low-income housing developers, advised by boards of private sector builders, tax and zoning attorneys, mortgage experts and representatives of the business community, offers some potential for joint ventures with organizations that provide services for or advocate for persons with disabilities, as was done in the development of the Reservoir in Madison, Wisconsin. A key to viable partnerships between non-profit developers and advocacy organizations rests with the latter's ability to channel housing funds to which they have access into projects that would otherwise be targeted solely to lower income households, without regard to disability. Such joint efforts can further the goal of an expanded stock of community-integrated housing for persons with disabilities.

Private sector builders frequently lack the perspective of advocacy groups or consumers on the need to develop housing for persons with disabilities. In an era of reduced federal involvement in the overall production of affordable housing, links between advocacy groups, consumers, and builders are critical. Such linkages may take the form of cooperative agreements where local builder associations extend their development expertise to non-profits undertaking projects to meet the housing needs of people with disabilities. In other cases, individual builders/developers may agree to lend their expertise to a specific project in return for a limited equity position. Such collaborative efforts can enhance the development

capacity of non-profit sponsors while increasing the private sector building community's awareness of the housing needs of persons with disabilities.

Finally, in evaluating potential development opportunities, prospective sponsors should keep the following in mind:

- Available financing sources are continually changing, as new programs are initiated, older ones are phased out, and rules and regulations are amended. However, the principal phases of the development process and development principles outlined in this guide can be applied regardless of funding sources used.
- Sponsors should evaluate the benefits provided by alternative funding sources to determine how much can really saved under terms and conditions of below-market rate financing and how this translates into a subsidy for reduced rents or sales prices.
- The material in this guide is intended to provide general guidelines and should be supplemented by technical expertise from professionals familiar with local market conditions.

HV1793

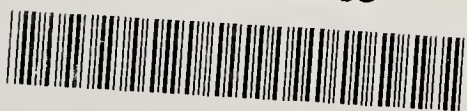
F491 Financing housing for
N213 people with disabilities:
 The financing mechanisms.

C.1

DATE DUE			

AMERICAN FOUNDATION FOR THE BLIND
15 WEST 16th STREET
NEW YORK, N.Y. 10011

10/8/2010
FT 211454 5 26 00



HF GROUP - IN

